

REPORT TO THE CITY COUNCIL

BY THE CITY INTERNAL AUDITOR

AUDIT OF THE

**SHREVEPORT PUBLIC ASSEMBLY AND RECREATION (SPAR)
WESTSIDE TENNIS CENTER - TENNIS CENTER OPERATIONS**

SR650098-02

September 9, 1998



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Councilman James Green
Chairman, Shreveport City Council
P. O. Box 31109
Shreveport, LA 71130-1109

Dear Councilman Green:

Subject: SR650098-02 - Audit of the Shreveport Public Assembly and Recreation (SPAR),
Westside Tennis Center - Tennis Center Operations

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Radford K. Snelding, CFE, CGFM, CIA
City Internal Auditor

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**EXECUTIVE SUMMARY
SPECIAL REPORT
SHREVEPORT PUBLIC ASSEMBLY AND RECREATION (SPAR)
WESTSIDE TENNIS CENTER - TENNIS CENTER OPERATIONS
INTERNAL AUDIT REPORT SR650098-02**

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

The City operates three Tennis Pro Shops throughout the City. These centers are staffed with city employees who have the responsibility for managing and facilitating the City's tennis program.

OVERVIEW OF SIGNIFICANT ISSUES

The review was conducted as a special request of SPAR management. As a result of deficiencies detected by their internal controls, a request was made of us to evaluate and make recommendations on any identified weaknesses. Accordingly, we would like to express our appreciation to the SPAR staff for its cooperation, courtesy, and assistance extended to us during this assignment.

Based on the results of our review, we suggested recommendations that, if implemented, would create operational enhancements and improvements at the tennis centers. We recommended that management:

- ? Consider the privatization of the management of the tennis centers.
- ? Comply with existing policies and procedures relating to the assigned change fund.
- ? Strengthen the control system and enhance the appeal of tennis centers by:
 - ? remitting revenue documents in a timely manner
 - ? extending the hours of operation
 - ? expanding the merchandise offered for sale
 - ? strengthening the cashiering functions
 - ? improving facility maintenance
 - ? improving physical security and access
 - ? addressing employee mileage reimbursements
 - ? developing training and development programs
 - ? developing workload indicators and efficiency and effectiveness measures

INDEX

Executive Summary	1
Index	2
Objectives	3
Scope and Methodology	3
Background	3
Conclusions/Findings/Recommendations	4
Findings	
1. Privatization of Tennis Centers	4
2. Compliance with A.P. #3-4 and Results of Cash Count	5
3. Remittance of Revenue Documents	7
4. Operating Hours	8
5. Tennis Center Merchandise	9
6. Cashiering Functions	10
7. Facility Maintenance	11
8. Physical Security and Access	12
9. Employee Mileage Reimbursements	12
10. Training and Development Programs	13
11. Workload Indicators/Efficiency and Effectiveness Measures	14

SPECIAL REPORT
SHREVEPORT PUBLIC ASSEMBLY AND RECREATION (SPAR)
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OBJECTIVES

We have completed a special review of SPAR's Westside Tennis Center operations. This review was conducted as a request of SPAR management. The objectives were to determine whether:

- ? Accountability over cash and related assets was accurate and proper.
- ? Funds received were promptly remitted for deposit.
- ? Cash and related assets on hand were properly safeguarded.
- ? Financial and operating information was reliable.
- ? The recommendations made in prior Internal Audit Report (IAR) 040392-08, entitled "Limited Review of SPAR Tennis Center Contractors," dated September 28, 1992, had been implemented.

SCOPE AND METHODOLOGY

Our audit was performed in accordance with generally accepted governmental auditing standards, as defined in Section A.40 of the Internal Audit Office Operating Instructions manual. The scope of the study of internal control was limited to the general controls surrounding the specific issues addressed. The audit procedures included, but were not limited to, the following:

- ? Determining compliance with Administrative Procedure (A.P.) #3-4, entitled "Petty Cash Funds."
- ? Reviewing cash receipts and corresponding revenue reports remitted to SPAR's Administration Division.
- ? Examining applicable documents to determine accuracy and propriety of data thereon.
- ? Interviews with operating personnel.
- ? Observing Westside Tennis Center internal control system.

BACKGROUND

The employment status of the Tennis Shop managers has changed three times within the last ten years. Prior to 1988, they were city employees; in January, 1988, they were independent contractors; and in April, 1996, they were made city employees again. During this time their

SR650098-02
July 10, 1998

role and responsibilities changed accordingly. As independent contractors and city employees they were responsible for giving lessons, collecting court use and membership fees, selling and repairing sports equipment, sponsoring tournaments, and providing several hours of community service annually. The primary difference in the employment statuses is that as independent contractors the Pro Shop managers were responsible for merchandise purchased and sold at the facilities.

The City has three Tennis Pro Shops. They are as follows:

<u>Tennis Center</u>	<u>Location</u>
Westside Tennis Center	4100 Pines Road
South Shreveport Community Park	1000 Bert Kouns
Querbes Park Tennis Center	3500 Beverly Place

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

Generally, controls established by SPAR management at the Westside Tennis Center were adequate in preventing, detecting, and correcting errors and irregularities. Thus, as a result of these controls, management had noted instances in which operating personnel deviated from established policy and procedure. Subsequently, we were contacted to perform a review of several tasks of the tennis center operations.

Based on the results of our work, we found that full accountability over funds collected could not be established. We also noted that funds collected were held for excessive periods before they were remitted for deposit. We have also included other suggestions concerning the control system that, if implemented, would strengthen existing controls not only at Westside but the two other facilities as well. Our recommendations include:

- ? Compliance with existing policies and procedures.
- ? Operational enhancements and improvements.

1. Privatization of Tennis Centers

Criteria: Local governments have assumed that some functions would be better managed if they were left to the private sector. Quasi-public relationships, such as in the government owning and maintaining a facility while the management is done by the private sector, have

SR650098-02
July 10, 1998

resulted in the general public being better served and the facility becoming self-supporting. Additionally, tax dollars that were being used to subsidize the management of these activities can be directed toward other priority items.

SR650098-02
July 10, 1998

Condition: The cost of additional controls, merchandise, and other enhancements needed to make the tennis centers profitable, more attractive, which may increase the number of users, would require a significant investment of city funds. Currently, annualized personnel cost alone associated with operating all tennis centers is estimated to be in excess of \$155,000. (Other expenses associated with operations include utilities, building maintenance, insurance, general administration, etc., could not be readily determined.) Revenues collected as of July 14, 1998, totaled \$17,127.

Effect: Excessive costs are being incurred for the management of the tennis centers. (Expenses exceeded revenues by approximately \$138,000 during the first six months of 1998.)

Cause: Since the tennis center is a city-owned facility, management felt that more control could be exercised if the management was under the jurisdiction of the City.

Recommendation: We recommend that management perform a study as to whether the tennis centers would be enhanced by privatizing the management of each center. Control over fees, building maintenance, tennis lesson charges, tennis court access, etc., would be retained by the City. (This recommendation is similar to our recommendation made in IAR 040392-08, Finding 1.)

Management Response: Management will review privatization possibilities/options for tennis center operations; will consult with SPAR Director for future considerations. Would like time to view new personnel and tennis center manager goals. Will review again to measure progress around the first of the year.

2. Compliance with A.P. #3-4 and Results of Cash Count

Criteria: A.P. #3-4, "Petty Cash Funds," specifies the system of internal control over the petty cash and change fund which should be maintained by the authorized custodian of those funds. Included, but not limited to these areas, are instructions concerning availability of the fund, deposit frequency, forms to be utilized, and management's responsibility as to verifying the fund.

SR650098-02
July 10, 1998

Condition: Based on the results of our review, we found that management did not comply with procedures and controls established for the change fund. Specifically, we noted that due to management override:

- ? The cash register contained only \$0.61.
- ? The change fund (\$100) was unavailable to be counted. The fund was produced two days later to be verified. (However, it should be noted that the fund custodian was on vacation and the fund was presented to be counted two days later. In accordance with A.P. #3-4, section 6(c), a temporary transfer should have been made to the Pro Shop attendant.)
- ? Deposits were not made in accordance with management's directive. Ten overdue deposits were made subsequent to our surprise cash count.
- ? Sections 7, 8, and 10 of the "Petty Cash or Change Fund Request," Appendix A had not been updated to reflect current employees and SPAR's department head.
- ? The fund custodian did not maintain on file a copy of both the approved "Petty Cash/Change Fund Request" and "Fund Custodian Responsibility Statement" as required by A.P. #3-4, Section 6.a.6.
- ? Supervisors did not perform, at least annually, unannounced reconciliations of the change fund as required by Section 6.g.2. of A.P. #3-4.

Effect:

- ? Non-compliance with applicable guidelines.
- ? Increased opportunities for errors or losses of city funds.

Cause: The primary cause for the noted deficiencies can be attributed to management override and disregard of policies and procedures.

Recommendation: We recommend management:

SR650098-02
July 10, 1998

- a. Ensure that the change fund is available and properly secured at all times. Additionally, management should require that all authorized cashiers have access to the change fund, which would include knowledge of the safe combination.
- b. Update the "Petty Cash or Change Fund Request Form."
- c. Ensure the change fund custodian maintains on file a copy of both the "Petty Cash\Change Fund Request" and "Fund Custodian Responsibility Statement."
- d. Ensure unannounced reconciliations are performed, at least annually, by supervisors independent of the cash function.

Management Response: SPAR has a very strict cash handling procedure that has been in place for quite some time. It must be noted that the previous center manager chose not to follow proper procedures, and has been handled accordingly.

Change fund paperwork has been updated, and is being updated as new employees come on board. New cash register system will assist us in monitoring cash funds and revenue flow.

Recreation Division Manager will perform cash fund reconciliations on an unannounced basis at least 2-3 times a year.

3. Remittance of Revenue Documents

Criteria: SPAR - Administration Division requires revenue receipt documents to be submitted on a daily basis.

Condition: We noted that revenue receipt documents were not being remitted in a timely fashion. Review of revenue receipts prepared during June, 1998, indicated that they were routinely held for excessive periods of time before being submitted to SPAR - Administration.

Effect:

- ? Deviation from established policies and procedures.
- ? Exposure to misuse or lapping of funds.
- ? Delayed availability of funds.

SR650098-02
July 10, 1998

SR650098-02
July 10, 1998

Cause: The primary cause for the noted deficiency can be attributed to management override and disregard of policies and procedures.

Recommendation: The Athletics Division Manager should ensure that all documentation is promptly transferred to the Administration Division as required.

Management Response: Policy for revenue receipts, and associated paperwork, is in place. Personnel has been reminded of policies and procedures governing cash handling, revenue receipts, pro-shop inventory, etc.

Working on a new Tennis Policy and Procedures manual for all appropriate employees. The capabilities of the new cash register system is still being reviewed, as the new system will have a direct effect on procedures formulated.

4. Operating Hours

Criteria: Reasonable assurance did not exist to ensure that the tennis center was being fully utilized and available to all users.

Condition: We noted that for the Westside Tennis Center the hours of operation were from 2:00 p.m. to 9:00 p.m. daily, even though two employees worked at the center.

Effect:

- ? Under-utilized facilities.
- ? Adverse publicity.

Cause: Management stated that the bulk of participation normally occurred from mid afternoon to late evening.

Recommendation: To help ensure that the tennis facilities are available and accessible to users, the Athletics Division Manager should require the assigned employees to work different shifts in order to extend the hours of operation.

SR650098-02
July 10, 1998

Management Response: The tennis center is now fully staffed and open to the public during comparable hours of the other City tennis facilities.

5. Tennis Center Merchandise

Criteria: Good management practice dictates that an effective inventory system, at a minimum, should include adequate stock and a system of control to indicate sales, balances on hand, value, etc.

Condition: The availability and controls exercised over the center's merchandise inventory was inadequate. We noted that:

- ? The merchandise offering to customers was sparse with only five different items being available. (From a cost-containment view, the few items offered could be considered sufficient. However, consideration should be given to whether a fully-stocked center would generate additional sales and income.)
- ? The inventory method used was not reliable because not all sales were posted to the inventory control sheets and neither were daily sales reconciled with inventory balances.

Effect:

- ? Unmet demand.
- ? Sales potential not realized.
- ? Inventory exposed to theft and manipulation.

Cause: The cost investment associated with offering additional items was prohibitive. An additional cause is the lack of training and expertise in managing what is traditionally part of a retail operation.

Recommendation: We recommend that management study the best mix of products to offer the users of the tennis centers. Cost, sales price, quality, demand, etc., should be considered when performing this study.

SR650098-02
July 10, 1998

SR650098-02
July 10, 1998

Management Response: Management agrees that a fully-stocked pro shop would be beneficial to both the facility and the patrons. However, budget restrictions prohibit the purchase of re-sale items desired.

It would benefit the facility if the revenue gained from the sale of pro-shop items could be placed back into the line item from which the merchandise was originally purchased. This would make it possible to re-stock items as they are sold.

6. Cashiering Functions

Criteria: A strong system of internal control requires that an adequate segregation of duties exists to help prevent, detect, and correct irregularities. Additionally, the system should be developed so that the responsibility for certain transactions can be clearly assigned and identified.

Condition: There was no reasonable assurance that all collections were properly accounted for, responsibility assigned, and safeguarded. Specifically, we noted that pro shop employees shared cashiering functions during their shifts.

Effect:

- ? Exposure to loss or misappropriation of funds.
- ? Unassignable responsibility for lost or misappropriated funds.

Cause: The lack of training and understanding of how an internal control system works to help prevent, detect, and correct irregularities. Specifically, the ability to assign responsibility for any transaction to a particular employee is not present.

Recommendation: Management should require each cashier to complete a separate "Daily Revenue Form" and use separate cash drawers. The change fund could then be allocated between each cashier, thereby, stopping the current practice of sharing cash drawers.

Management Response: The new cash register system will allow employees to have their own cash drawer. The new system will also produce a close out report for each cashier as a shift change is made.

SR650098-02
July 10, 1998

A Daily Revenue Sheet will be submitted with each cashier's close out report attached.

7. Facility Maintenance

Criteria: One way to improve the public's perception of a facility is through adequate maintenance and upkeep. This premise may be based upon the facility's appearance and whether or not the space being offered is in good working condition (i.e., courts, temperature of the office environment, etc.).

Condition: We observed that the tennis center's physical plant, tennis courts, and equipment were not being adequately maintained. Per our on-site visit, we noted that the roof, gable, and eaves were in need of repair; the heating and air conditioning units were not working; and the tennis nets and courts were in need of minor repairs.

Effect:

- ? Future excessive costs incurred to repair buildings, equipment, and courts.
- ? Adverse publicity.
- ? Reduced public use.

Cause: The lack of an effective preventative maintenance system combined with inadequate funding for facility maintenance has resulted in this deficiency.

Recommendation: We recommend that SPAR management develop a preventative maintenance program as well as a scheduled maintenance program for all the tennis centers. Additionally, a system should be developed so that minor repairs can be reported between scheduled maintenance.

Management Response: SPAR has a maintenance work order system in place and employees have been instructed on procedures to follow.

Roof repairs have gone out for bid, and the cooling/heating system has been upgraded.

Court repair is being addressed in budget preparation for '99.

8. Physical Security and Access

Criteria: Access to public buildings and facilities should be controlled to prevent access to confidential records and assets.

Condition: Assurance did not exist to ensure that only authorized employees had access to the facility as well as to cash and related assets. Specifically, we noted that the access entry code and door locks had not been changed even though the Tennis Pro Shop Manager had recently resigned. Additionally, it was noted that the "Petty Cash or Change Fund Request," Appendix A had not been revised to indicate the current employees with access to the safe.

Effect:

- ? Exposure to loss or misappropriation of funds.
- ? Unassignable responsibility for lost or misappropriated funds.

Cause: Policies and related procedures had not been developed to prompt management to change access codes, combinations, etc., when personnel changes are made.

Recommendation: The Athletics Division Manager should ensure that access codes, door locks, and documents authorizing access to cash and related assets are modified whenever employees change.

Management Response: Management agrees with recommendations. As new employees are hired, proper steps will be taken to ensure security.

9. Employee Mileage Reimbursements

Criteria: City policy requires that daily deposits be made. Employees use their personal vehicles to make these deposits. The amount to be reimbursed for mileage is the same used pursuant to IRS guidelines.

Condition: Employees are required to make daily deposits, unless otherwise directed, of revenues collected at the various SPAR locations (i.e., tennis centers, swimming pools). However, we noted that employees were not reimbursed for mileage for using their personal

SR650098-02
July 10, 1998

vehicles.

SR650098-02
July 10, 1998

Effect:

- ? Possible exposure to the City for non-payment of mileage expenses.
- ? Low morale.
- ? Untimely deposits.

Cause: Due to the number of employees making deposits and budgetary constraints, mileage reimbursements were not made.

Recommendation: We recommend that management consult with the City Attorney and Risk Manager to determine the consequences of requiring employees to make deposits using their personal vehicles without the benefit of mileage reimbursements. Additionally, consideration should be given to other ways to resolve this concern, which may include mileage reimbursements, scheduled pick ups, etc.

Management Response: Mileage reimbursements will be discussed with the SPAR Director and possibly worked into the '99 budget. Presently in budget review, so final decision will be made in 2-4 weeks.

10. Training and Development Programs

Criteria: To ensure that the goals of efficiency, economy, and effectiveness are achieved, it is mandatory that employees are properly trained.

Condition: The Westside Tennis Center did not have a formal training and development program. No training was documented for any of the employees assigned to the center.

Effect:

- ? Ineffective and inefficient operations as a result of improperly trained personnel.
- ? Declining morale and productivity.

Cause: The benefits associated with properly trained and competent employees had not been considered.

SR650098-02
July 10, 1998

SR650098-02
July 10, 1998

Recommendation: Management should:

- ? Determine the staff's current skill levels and qualifications and compare that with the technical proficiency required to perform the respective jobs.
- ? Plan and schedule training, when necessary, for staff to update their skills.

Management Response: A new Policy and Procedures manual for our tennis centers is in draft form. Once completed, each tennis staff member will be oriented on its contents. New employees will be "schooled" on the contents upon hiring.

Staff members will be invited to educational seminars as they apply to their individual job functions.

11. Workload Indicators/Efficiency and Effectiveness Measures

Criteria: To ensure that goals and objectives are accomplished and measurable, workload indicators along with efficiency and effectiveness measures are developed. The development of these performance indicators assures management that resources are being utilized with a minimum of waste.

Condition: The tennis center did not have specific performance measures by which to gauge its effectiveness in accomplishing its plans and goals. Based on our observation, we noted that there was no formal system in place to capture, report, and monitor workload, efficiency, and effectiveness indicators.

Effect:

- ? Resources may be used ineffectively and inefficiently.
- ? Goals and objectives may not be achieved.
- ? Employees unaware of management's expectations.

Cause: The benefits to be derived from a system to measure the performance of the tennis center had not been realized.

SR650098-02
July 10, 1998

Recommendation: We recommend that management develop and design a clear, concise system which would allow, at a minimum, reporting of the center's accomplishments. In addition, management should develop relevant workload, efficiency, and effectiveness measures which are consistent with functions, goals, and objectives of the center. The tennis center manager should be empowered, made accountable, and evaluated on goal accomplishment.

Management Response: A new job description for the recently hired Tennis Center Manager is in draft form and will be discussed thoroughly to explain expectations. Certain programming will be expected, including lessons, tournaments, leagues, etc. to promote an increase in court usage and revenue.

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